Young African Leaders Journal of Development

Volume 2 Article 12

11-1-2018

The Key Constraints Facing African Countries in Mobilizing their Resources for Development: A Case Study on Ghana and Zambia

Albert Mcbell Ninepence
Releaf Group, New Jersey

THE KEY CONSTRAINTS FACING AFRICAN COUNTRIES IN MOBILIZING THEIR RESOURCES FOR DEVELOPMENT: A CASE STUDY ON GHANA AND ZAMBIA

Albert Mcbell Ninepence
Consultant, Releaf Group New Jersey & Economist, Ghana

ABSTRACT
Domestic Resource Mobilization (DRM) is "the generation of government revenue from domestic resources, from tax and non-tax sources (royalties, licenses, levies or other income)" (European Commission, 2010). Major scholars have exchanged contrasting views on the barriers to resource mobilization in Africa. While Di John (2006) asserts weak state capacity to mobilizing resources and the need for reconstruction of a viable state, Von (2007) contends that neopatrimonialism has inhibited African state's revenue. Furthermore, Elbadawi (2000) maintains that low savings and investments are the impediments of resource generation and the declining performance of Africa. This paper therefore argues that the weak state capacity of African countries is the key constraint facing African countries in mobilizing their resources for development using Ghana and Zambia as case studies. The next sections of the paper are organized as follows: first the paper will accentuate on the weak state capacity, secondly it will argue how weak state capacity has led to key constraints in mobilizing resources. Finally the paper will make conclusions and recommendations.

INTRODUCTION
Weak Administrative state capacity: Colonialism (1920s-1960s)
The colonial project in Africa created a state system where administrators exerted their powers without institutionalized negotiations with civil society. Mandani (1996, p23) maintains that the fragile state capacity of colonialism created coercive capacity of the state where authorities extract state resources leading to what Cooper (2002) terms "the gatekeeper state". In view of the weak regulatory capacity for the state, the political will to insulate tax administration from political incursions is lacking. Political leaders in Africa are able to exercise their authority to interfere in tax administrative systems due to lack of constraint on their behaviours. This interference from politicians has resulted in weak tax administrative capacity and tax compliance from citizens in Africa. With tax administrations in Africa lacking technical skills and equipment and little capacity to formulate policies and monitor performance, mobilization of tax revenue tend to be inefficient. There are also limited communication capacity of the tax administration in Africa and the resources to purchase machinery and equipment to facilitate revenue collection is lacking which leads to tax collection being directed to few scattered areas (Bird, 1989).

Also, given the political interference in tax administrations, tax policies and legislations tend to be complex to be interpreted by tax payers which sometimes tend to be at the discretion of tax officials which leads to corruption. The corruption and perception of corruption of the tax administration in Africa undermine legitimacy and given the low levels of education in Africa, tax compliance tends to be low. The state is characterized by fiscal crises in Africa. However, to create a viable and effective state, designing tax systems that can provide incentives for growth and meet distributional demands is vital (Di John, 2006). The work of Teera (2002) and Teera and Hudson (2004) maintained that state capacity in Africa is not fully exploited as tax revenue in developing countries are least responsive to policy changes and economic growth. The state capacity in mobilizing of tax revenue in Africa is low. An overview of Appendix 1 shows that Africa's tax revenue average (%of GDP) was 19.6 from 1985-87 and 19.8 from 1995-97 which is below the average of OECD countries 36.6 and 37.9 from 1985-97. Also, appendix 2 shows that Sub-Saharan Africa (SSA) tax to GDP ratio was 17 and 19.1 in 1990 and 2005 respectively. Narrowing down to Ghana and Zambia, appendix 3 illustrates the state capacity for both countries is low in mobilizing revenue as the average of tax revenue to GDP from 1990 to 2011 was 15% to Ghana compared to 15.68% of Zambia.

Structural Adjustment Programs (SAP) and State Capacity (1980s-1990s)
The capacity of the state is the power of the state to raise revenue, enforce contracts and support markets through regulations (Tilly, 1985). It is also state's ability to implement policies "that are not simply reflective of powerful social groups" (Skocpol, 1985, p9). The capacity of the state does not only depend on its ability to formulate prudent fiscal policies but also the political will, administrative efficiency and culture of tax compliance play a crucial role (Fukuyama,

2005). In most states in Africa, there exists a weak capacity in mobilizing domestic resources which can be traced to the SAP introduced into Africa in the 1980s and 1990s. The SAP led to privatization of most state enterprises which led to limiting the state's role in owning and operating productive enterprises.

According to Mkandawire (2015) "one of the obvious errors of the SAP was the devastating erosion of state capacity produced by reckless downsizing of the state through formulaic retrenchment, demoralizing the civil service and massive interference by poorly coordinated donors and in the process undermines the legitimacy of local, political and bureaucratic action by assuming ownership". The SAP resulted in a weak regulatory capacity for the state creating state competition with the private sector and creation of monopolies (Mkandawire, 2007). The SAP introduced in Ghana in 1983 led to the reduction of the PNDC Government bureaucracy with donors dictating the reform process compared to the Kaunda Government of Zambia which implemented SAP in 1985 which engendered liberalization of the agricultural market, public sector reform and reduction in civil service employment (Callaghy, 1990 and Martin, 1991).

Constraints to DRM: Low savings (1999-today)

The loopholes in state capacity in Africa has 'disincentivised' savings (Lindbeck, 1994). Since the state in Africa lacks autonomy, the ability of the state to devise, implement and achieve social, economic and policy goals are lacking. Consequently, the state's ability to allocate resources to productive and welfare-enhancing sectors tend to be weak. This has led to critical market failures and poor enforcement of standards, regulations and delivery of programs. The policies made by states in Africa inhibit incentives for savings as they create a weak tax structure. Due to the low average incomes of countries in Africa, tax levies on incomes of citizens result in low disposable income impeding private savings (PS). For instance, PS in SSA declined from 11.4% of disposable incomes in the 1970s to 7.5% in the 1980s (Mansour, 2008).

The informal sectors in Africa is high and the tax structure often fail to capture these sectors. The informal sectors make up 60 to 70% of GDP in African countries (Moore, 2004). Moreover, the size of the informal sectors was estimated for 2002-2003 at 43% for Africa, 30% for Asia and 43% for South America (Schneider, 2007). Since the tax structures cannot cover the large informal sectors, public savings tend to be low. Public savings in SSA declined from 4.3% in 1980 to less than 3% in 1990 (Solimano, 2003). The inability of the state to promote environments that foster savings has engendered limited DRM as Elbadawi (2001) underlines declining savings and investments in SSA obstructs DRM. From appendix 4, SSA Gross Domestic Savings (GDS) averaged 19.2% of GDP from 1981 to 2015 compared to South Asia 22.92% and 23.68% for upper income countries. The GDS of SSA are low which amounted to 17.6% of GDP in 2006 compared to 26% in South Asia and 43% in East Asia (World Bank, 2007).

In Zambia, there are also barriers in mobilizing DRM as national savings have been low. From 2000-2009, GDS was 17.2% of GDP compared to 28.9% of East Asia and 16.3% of SSA. Though Zambia performed slightly better than SSA, there are high problems with savings in Zambia as small proportions of the populations have access to saving facilities as Zambians that are with banks are only 14% (Melzer, 2007). From appendix 5, Zambia's GDS plummets from 36.3% in 2010 to 32.76 in 2015 though higher than Ghana with 9.57% and 13.08%. The declining trends of savings in Ghana is due to the high government deficit financed through levies of higher taxes on citizens. Also, financial institutions in Ghana prefer to lend to governments than private sectors without channeling savings to poor sectors of the economy (Quartey, 2005)

Capital flight

Capital flight constitute a major barrier to effective DRM (Zheng & Tang 2009). The inability of states to control capital flight can be seen as the ultimate reflection of a country's failure to mobilize and retain domestic financial resources (UNCTAD, 2007). While the studies of Boyce and Ndikumana (2003); Ajayi,(2007); and Ndiayi (2011) assert that political and institutional instability drive capital flight. Hermes et al,(2002) contend that high external debt of Africa causes capital flight with Ndiaye (2011) arguing the weak capacity of states which allows elites to amass personal fortunes abroad. The weak capacity of states in Africa has led to high levels of capital flight hampering DRM (Fleischer, 2002).

With low constraints on the state in Africa, leaders are able to exercise their discretionary power to embezzle financial resources to save abroad. State policies in Africa often leads to tax crimes and money laundering leading to illicit financial outflows. The macroeconomic environment of most states in Africa are unstable and consequently, investors tend to save their profits abroad due to financial risks. States in Africa are also dependent on foreign aid which tends to create high external debts. In the process of paying external debts, financial resources flow to foreign states obstructing DRM. Capital flight is a setback to DRM in Africa as it undermines social contracts and damages good governance. The stock of Africa's capital flight for 1970-2004 was estimated at $607 billion amounting to three times Africa's external debt (UNCTAD, 2009).

An overview of appendix 6 shows high levels of capital flight. There were high illicit flows from Africa of $57billion from 1970 to $437 billion over the nine years 2000-2008. Also, trends of capital flight from appendix 7 shows that from 2008-2012 SSA average capital flight increased more to $39 billion. This explains that capital flight is a matter of concern to Africa due to high capital outflows offsetting efficient DRM. Appendix 8 shows real capital flight from 2000 to 2005 for Ghana and Zambia. The average real capital flight of Ghana from 2000 to 2005 was $240 million compared to $682 million in Zambia. Though Ghana recorded higher trends of capital outflows from 2000 to 2004, in 2005 it recorded capital inflows compared to Zambia's increasing capital outflows throughout 2000 to 2015. In Zambia, there are high capital flights due to exploitation of natural resources, weak regulations and import dependency. Ghana's capital outflows are due to high taxes which increase rewards for evasion, corruption and huge budget deficit of government.

NEOPATRIMONIALISM

DRM is impeded in Africa due to neopatrimonialism where office holders embezzle state resources, centralize power or award favours to clients (Bratton &Van de Walle, 1997). While Clapman (1985, p48) argues that neopatrimonialism state is “a form of organization where relationship of a broadly patrimonial type pervade political systems constructed on rational-legal grounds”, Medard (1982, p165) contends “neopatrimonialism permits us to subsume not only clientelism, but nepotism, ethnicity and corruption” with Chabel (2002) emphasizing African states as neopatrimonial due to the inability to centralize rents. The state in Africa is characterized by lack of separation of powers of state institutions which weakens the states capacity. This gives state authorities the opportunity to influence other bureaucratic institutions. State leaders tend to abuse their powers to misuse state funds to secure loyalty from supporters (Soest, 2007). State institutions in Africa have few checks and balances which enable leaders to promote their private interest and engage in rent-seeking debilitating DRM capacities (Alence, 2004).

From appendix 9, tax revenue of GDP averaged 15.86% from 2003 to 2013 compared to 20.23% of Europe. The low levels of tax efforts in Africa is an indication of neopatrimonialism (Kohli,2004). Comparing Ghana and Zambia from appendix 10 and 11, Ghana's tax revenue average 16.15% from 2001 to 2011 with corruption score average of 3.6 compared to Zambia's tax revenue of 14.6% and corruption which explains higher neopatrimonialism (Englebert, 2000). In Zambia, there are high levels of neopatrimonialism as state officials centralize power and favours and misuse state resources. For instance, President Kaunda who ruled 14 years refrained from strengthening domestic tax collection leading to elites seeking their own interests. Zambia in 2005 was rated HIPC and has constantly depended on aid (IMF, 2005). Neopatrimonialism is also pervasive in Ghana as leaders like Rawlings ruled 20 years. Leaders in Ghana design policies to satisfy ethnic, religious and regional considerations. For instance, President Rawlings rural electrification project in 1990, Kufuors's rice importation policy in 2004 and Mill's policy to impose tariffs on rice importation were populist politics to canvass for support (Gyimah-Boadi, 2005).

CONCLUSION

DRM is a dynamic strategy to addressing the financial obstacles of African governments. The importance of DRM cannot be overemphasized as it provides African governments with long-term flexibility to formulate and implement policies to tackle economic, social and developmental challenges. Strengthening DRM is vital as it will reduce dependency on external flows and reduce vulnerability to external shocks. Also, it provides African states with greater policy space to own their development process and strengthen state capacity. This paper has argued that weak state capacity of African countries is a key constraint to DRM using Ghana and Zambia as case studies. In this paper, due to weak state capacity, key constraints to DRM were underscored as low savings, capital flight and neopatrimonailism. African governments should therefore widen their tax base to include the informal sector and avoid evasion for large tax payers, reduction of taxes and raising interest rates on savings and placing constraints on state administrations through consolidation of institutional structures.

REFERENCES

Alence, R. (2004). Political Institutions and Developmental Governance in Sub-Saharan Africa. Journal of Modern African Studies. 42 (2), pp. 163-187.

Ajayi S. (1997). An analysis of external debt and capital flight in the severely indebted low income countries in sub-Saharan Africa. IMF Working Paper 97/68. Washington DC: International Monetary Fund

Bratton, M. & van de Walle, N. (1997). Democratic Experiments in Africa. Regime Transitions in Comparative Perspective. Cambridge: Cambridge University Press

Callaghy, T.M. (1990). Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia and Nigeria. In J.M. Nelson (ed.), Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World. Princeton: Princeton University Press

Chabal, P. & Daloz, J.P.(1999). Africa Works. Disorder as Political Instrument. Bloomington. IN: Indiana University Press

Clapham, C. (1985): Third World Politics. An Introduction. London: Helm.

Cooper, F. (2002). Africa since 1940: The Past of the Present, Cambridge University Press

Di John, J. (2006). The Political Economy of Taxation and Tax Reform in Developing Countries. World Institute of Development Economics Research (WIDER). Research Paper No. 2006/74. Helsinki: United Nations University-WIDE

Elbadawi, I. (2000). Can African Savings Collapse Be Reversed? World Bank Economic Review Vol.14 pg 415-443

Englebert, P. (2000): State Legitimacy and Development in Africa. Boulder, CO: Lynne Rienner.

European Commission. (2010). Domestic Resource Mobilization. Retrieved from http://ec.europa.eu/europeaid/node/1359_pt

Fukuyama, F. (2005). State Building – Governance and World Order in the Twenty-First Century. London: Profile Books.

Gyimar-Boadi, E. (2001). A Peaceful Turnover in Ghana. Journal of Democracy 12(1).

Hermes, N., Lensink, R., & Murinde, V. (2002). Capital Flight: The Key Issues. In A. Mullineux and V. Murinde (Eds.), Handbook of International Banking (pp. 516-545).

Hudson R. (2004). Firms as political actors in processes of capital accumulation and regional development. Cambridge: Cambridge University Press

IMF. (2005a). Zambia: Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document. IMF Country Report 05/137. Washington, DC: International Monetary Fund (IMF).

Kohli, A. (2004). State-Directed Development: Political Power and Industrialization in the Global Periphery. New York: Cambridge University Press

Lindbeck, A. (1994). Overshooting, Reform and Retreat of the Welfare State, The 1993 Tinbergen Lecture, De Economist 142, 1-19

Mansour, M. (2009). Revenue mobilization in Sub-Saharan Africa: Challenges from globalization, IMF Working Papers 09/157

Mamdani, M. (1996). Citizen and Subject. Princeton: Princeton University Press.

Médard, J.F. (1982). The Underdeveloped State in Tropical Africa: Political Clientelism or Neo-Patrimonialism? In Clapham, Christopher (ed.). Private Patronage and Public Power. Political Clientelism in the Modern State. New York: St. Martin's Press. pp. 162-192

Melzer, I. (2007). Savings in Zambia. FINSCOPE Report. November.

Martin, M. (1991). Negotiating Adjustment and External Finance: Ghana and the International Community. In D.

Rothchild (ed.) The Political Economy of Recovery. SAIS African Studies Library. Boulder and London: Lynne Rienner

Mkandawire, T. (2007). Transformative social policy and innovation in developing countries. The European Journal of Development Research. 19 (1). pp. 13-29

Ndiaye, A. S. (2011). Capital Flight and its determinants in the franc Zone. SERC Research Paper 215 (Nairobi: AERC) Ndikumana, L. & Boyce, J. K. (2003). Public debts and private assets: explaining capital flight from Sub-Saharan African countries, World Development, 31 (1): 107-130.

Quartey, P. (2005). Financial Sector Development, Savings Mobilization and Poverty Reduction in Ghana.

Schneider, F. (2007). Shadow economies and corruption all over the world: new estimates for 145 countries. Economics, the Open Access, Open Assesment e-Journal

Soest, C.V. (2007). How does neopatrimonialism affect the African States's revenues? The case of Tax Collection in Zambia. Cambridge: Cambridge University Press. pp621-645

Solimano A. (2003). Remittances by emigrants: issues and evidence. WIDER Research Paper No. 2003/89. Helsinki: World Institute for Development Economics Research.

Skocpol, T. (1985). Bringing the State Back In. In P. B. Evans, D. Rueschemeyer & T. Skocpol (Eds.), Bringing the State Back In. Cambridge: Cambridge University Press.

Teera, J. (2002). Tax Performance: A Comparative study: Working Paper No.1. Centre for Public Economics, University of Bath

Thandika, M. (2015). African Beyond Recovery. Legon: University of Ghana

Tilly, C. (1985). Warmaking and State Making as Organized Crime. In Evans, Peter, Rueschemeyer, Dietrich, and Theda Skocpol (eds.) Bringing the State Back In. Cambridge: Cambridge University Press.

UNCTAD. (2009). Economic development in Africa: Domestic Resource Mobilization and Development.

UNCTAD. (2007). Economic Development in Africa: Trade Performance and Commodity Dependence. United Nations publication, sales no. E.03.II.D.34. New York and Geneva.

Appendix 1.

Comparative levels of Tax Revenue, 1985-1997(in percent percent of GDP)

	1985-87	1995-97	
OECD Countries 1/	36.6	37.9	
America	30.6	32.6	
Pacific	30.7	31.6	
Europe	38.2	39.4	
Developing Countries/2	17.5	18.2	
Africa	19.6	19.8	
Asia	16.1	17.4	
Middle East	16.5	18.1	
Western Hemisphere	17.6	18	

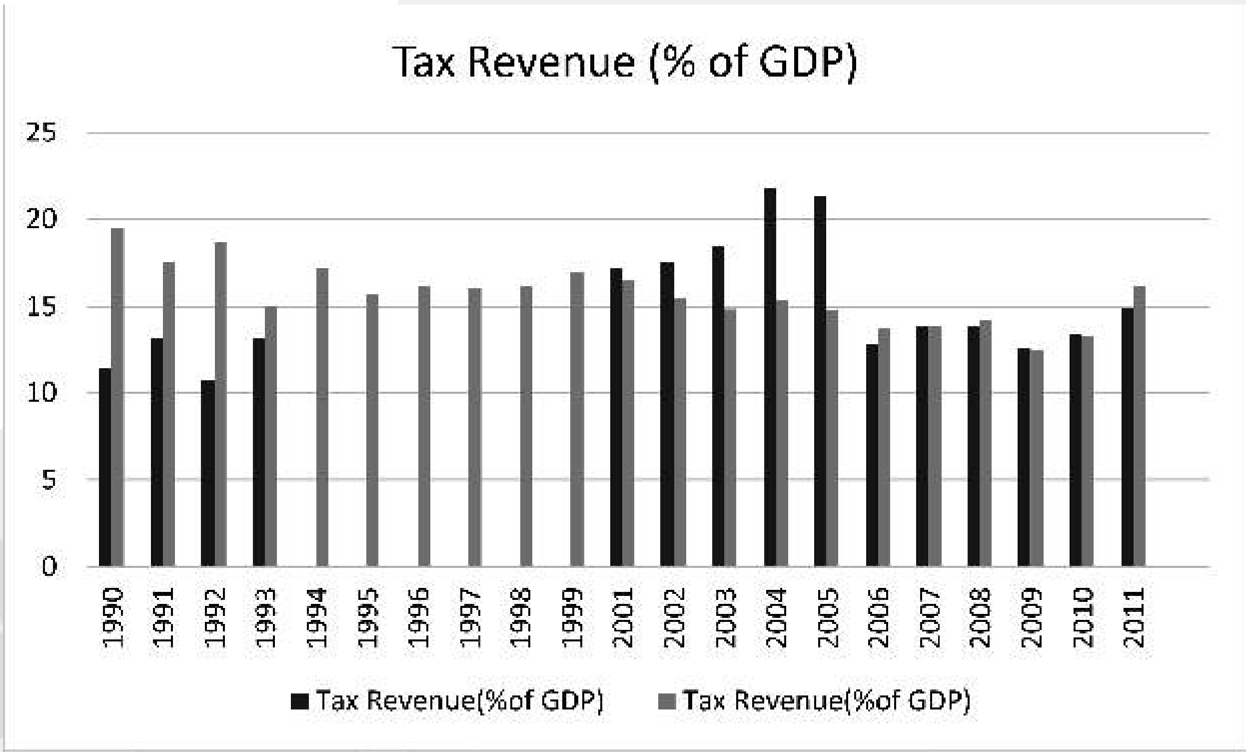
Sources: Revenue Statistics (OECD); and Government Finance Statistics (IMF).

Apppendix 2

Tax-GDP ratio across regions

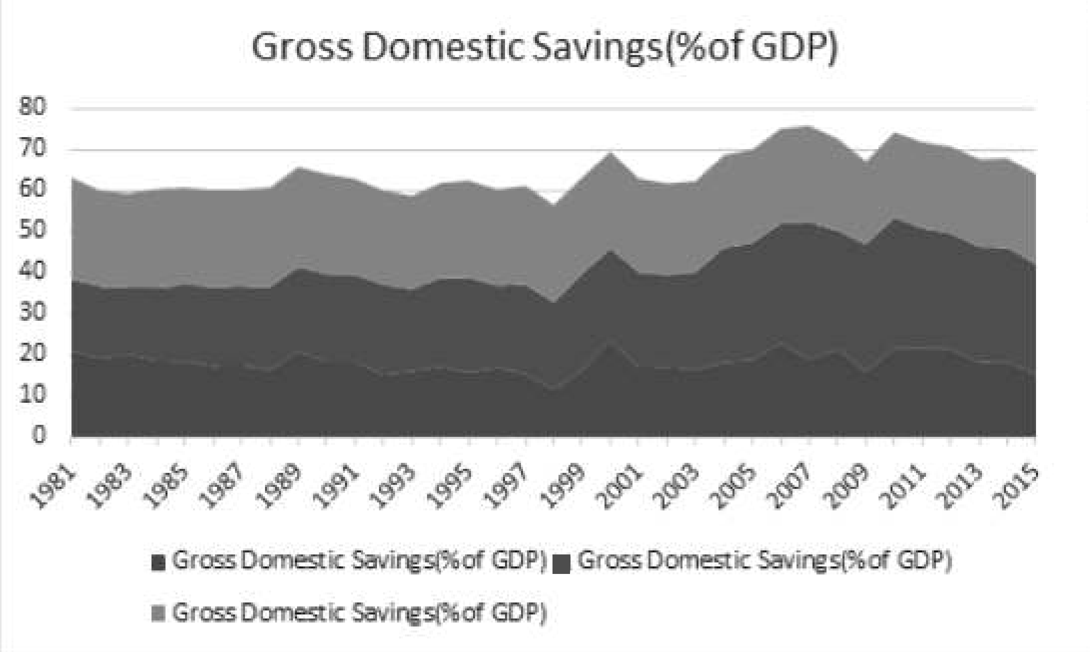
Location	1990	1995	2000	2001	2002	2003	2004	2005
East Asia&Pacific	21.5	19.9	19.9	20.6	22.2	22.7	26.1	29.9
Latin America and the Carribean	16.3	17.1	17.3	17.9	18.3	18.7	18.8	19.6
Middle East &North Africa	13.8	14.3	13	13.4	14.2	14.3	14.5	14.3
South Asia	11	11.5	10.4	10.7	10.8	10.7	11.4	12
Sub-Saharan Africa	17	15.8	17	17.2	17.5	18.7	19.7	19.1
Western Europe	37.5	38.2	40.4	39.8	39.4	39.2	39.4	40.7
United States&Canada	31.6	31.7	32.8	31.8	30.1	29.6	29.5	30.2
Source:IMF(2008)								

Appendix 3



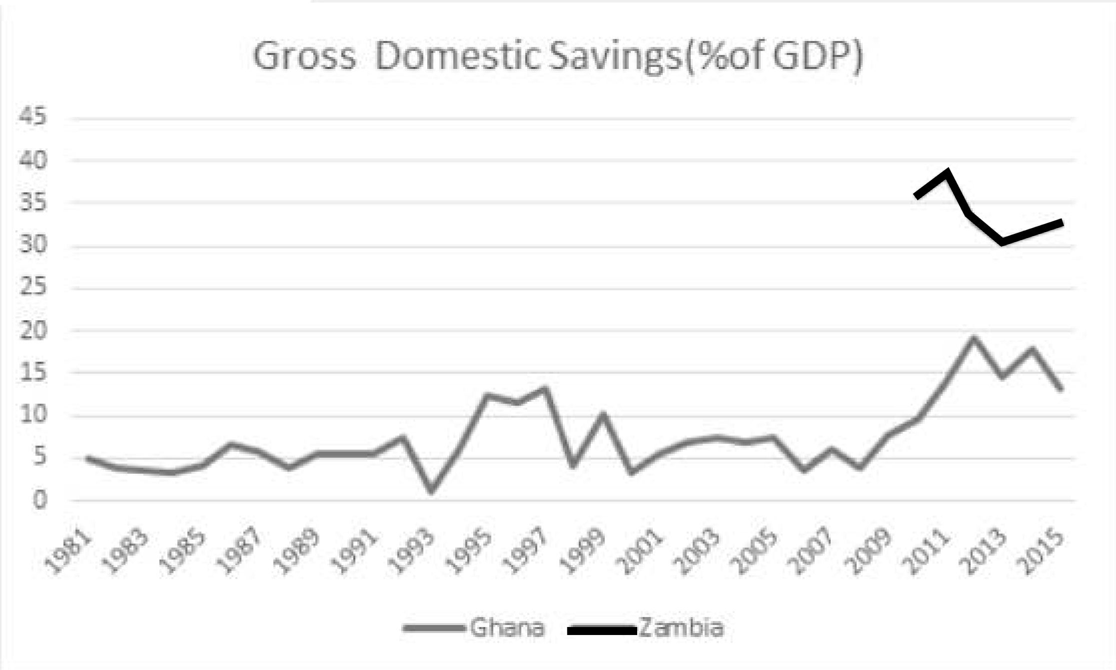
Data Source: World Bank

Appendix 4



Data Source: World Bank

Appendix 5



Data Source: World Bank

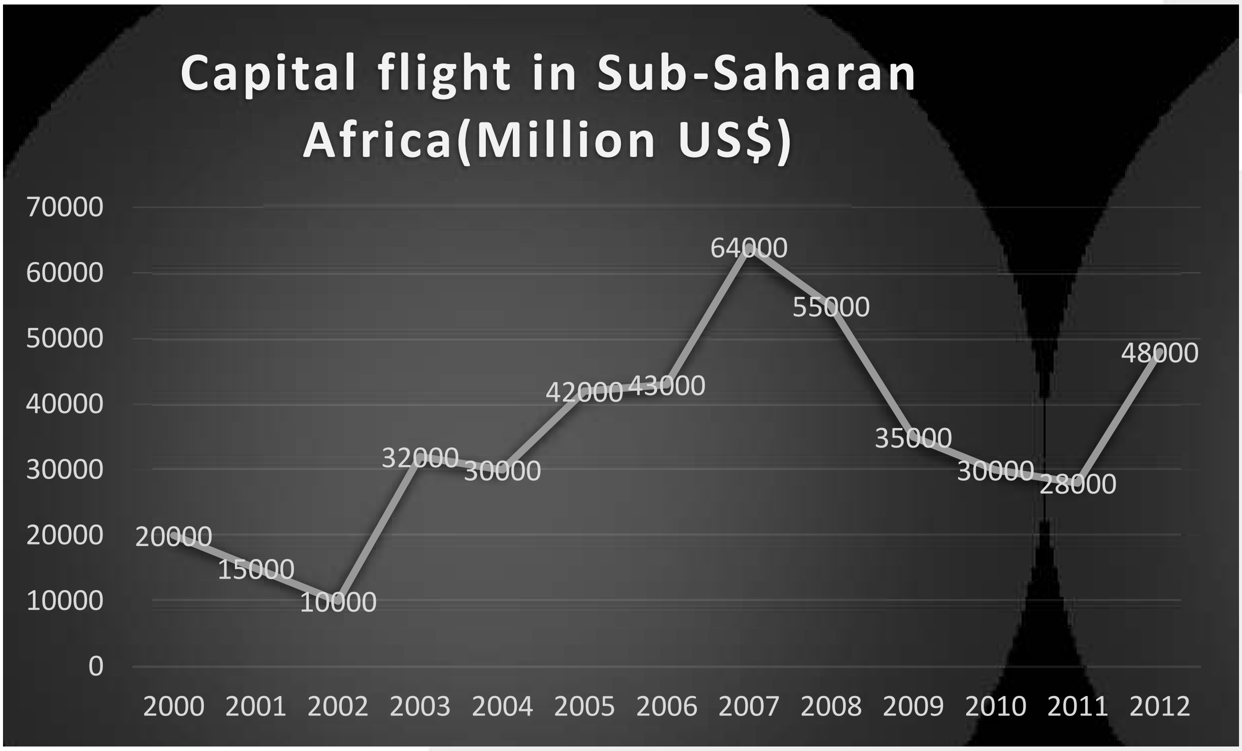
Appendix 6:

Africa: Illicit Financial Flows(IFFs)1970-2008 (in millions of Dollars)

	Total IFFs				
Group	1970s	1980s	1990s	2000-2008	1970-2008
Africa	57,291	203,859	155,740	437,171	854,061
North Africa	19,161	72,020	59,813	78,742	229,737
Sub-Saharan	38,130	131,839	95,927	358,429	624,324
Horn of Africa	2,354	14,131	5,108	15,603	37,197
Great Lakes	6,925	16,079	4,978	10,285	38,267
Southern	5,894	20,581	31,447	116,828	174,751
West and Central	22,956	81,047	54,394	215,712	374,109
Fuel-exporters	20,105	67,685	48,157	218,970	354,917
Nonfuel-exporters	7,867	26,517	22,375	23,342	80,102
	Average IFFs				
Group	1970s	1980s	1990s	2000-2008	1970-2008
Africa	7,299	21,678	17,813	50,328	29,021
North Africa	3,097	7,754	6,316	9,166	6,866
Sub-Saharan	4,202	13,924	11,497	41,162	22,156
Horn of Africa	249	1,421	715	1,949	1,183
Great Lakes	745	1,778	580	1,286	1,142
Southern	811	2,412	4,659	13,388	9,635
West and Central	2,397	8,313	5,544	24,538	10,196
Fuel-exporters	2,239	6,922	5,105	24,806	9,878
Nonfuel-exporters	1,017	2,729	2,433	2,787	2,502

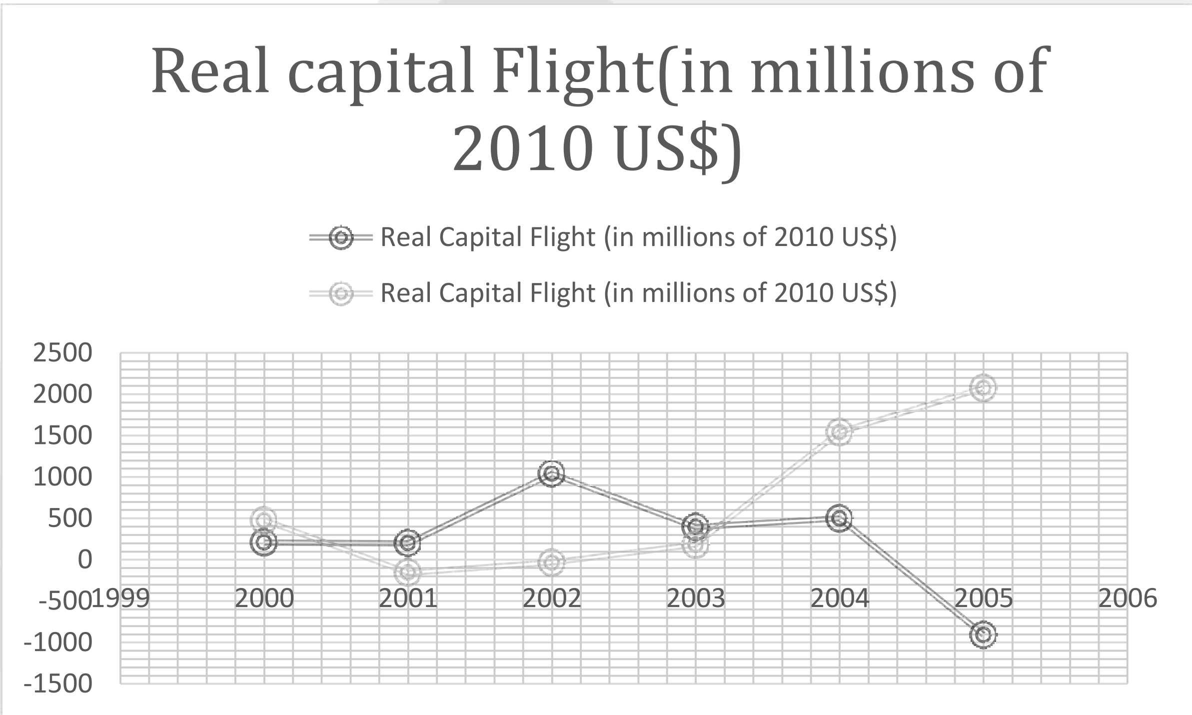
Source: Global Financial Integrity (2012)

Appendix 7



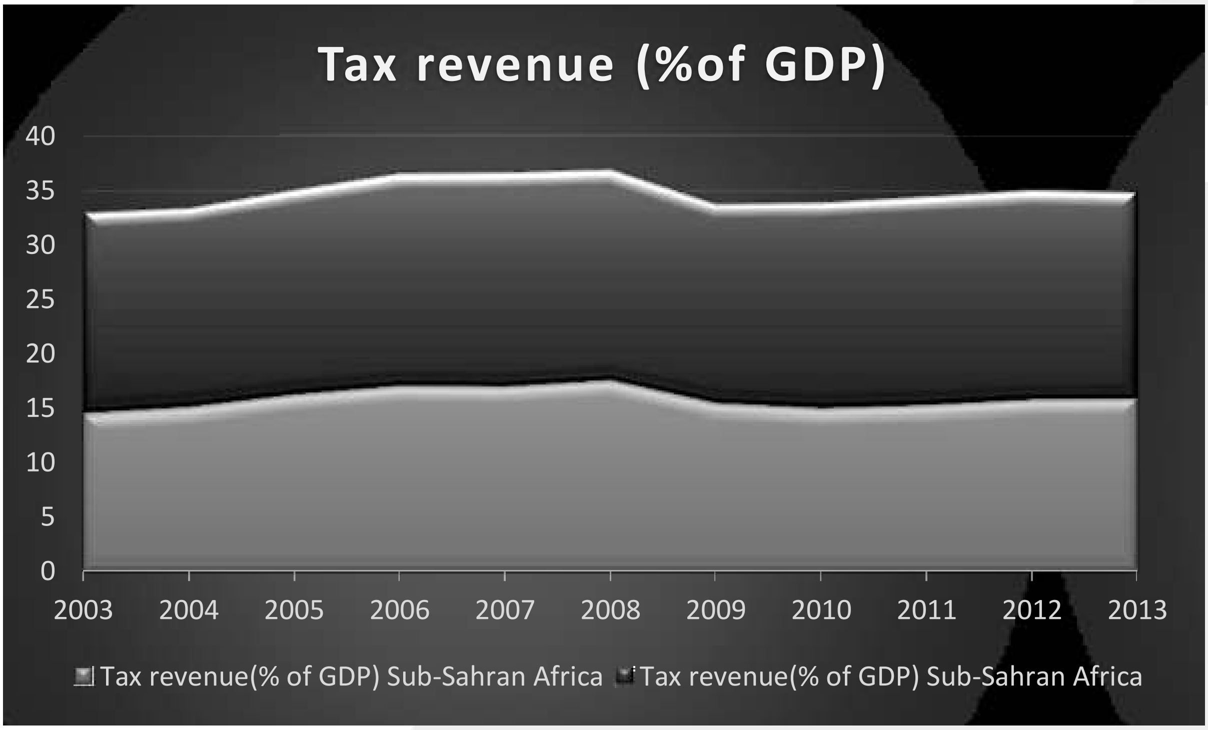
Source: ***Source: Ndikumana and Boyce (2012) and data sample expanded using data from IMF and WDI***

Appendix 8:



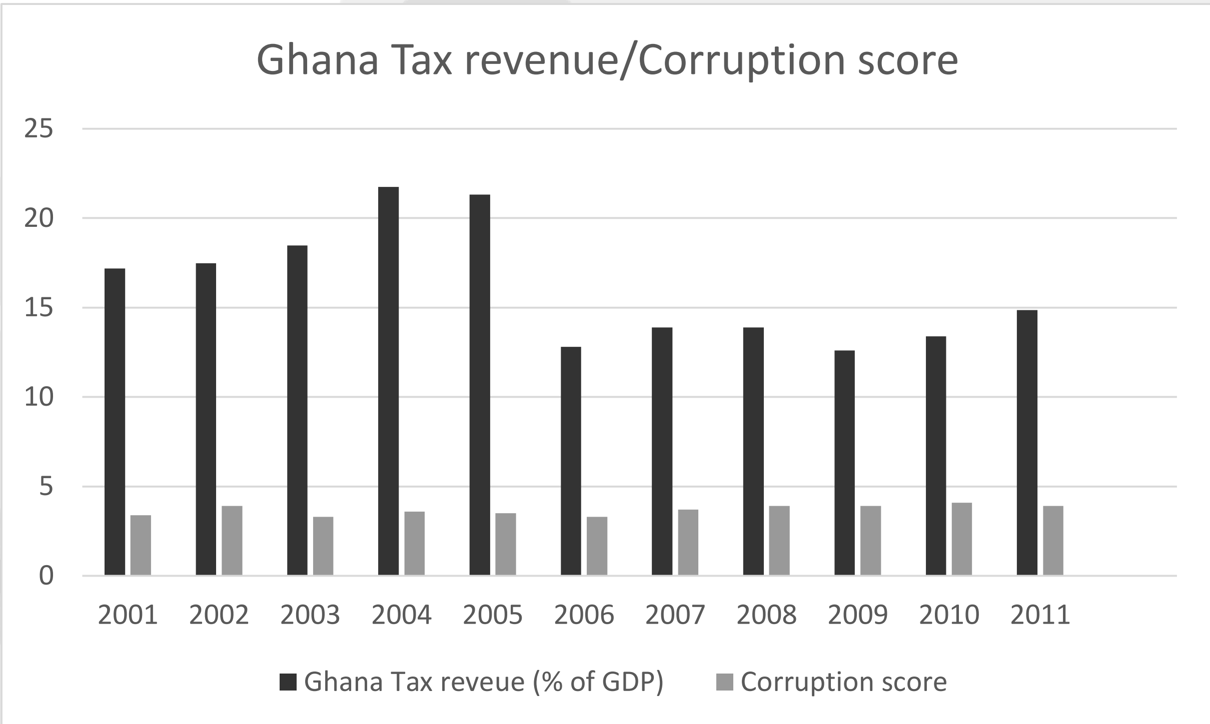
Source: Ndikumana and Boyce (2012), and sample expanded using data from:World Bank

Appendix 9.



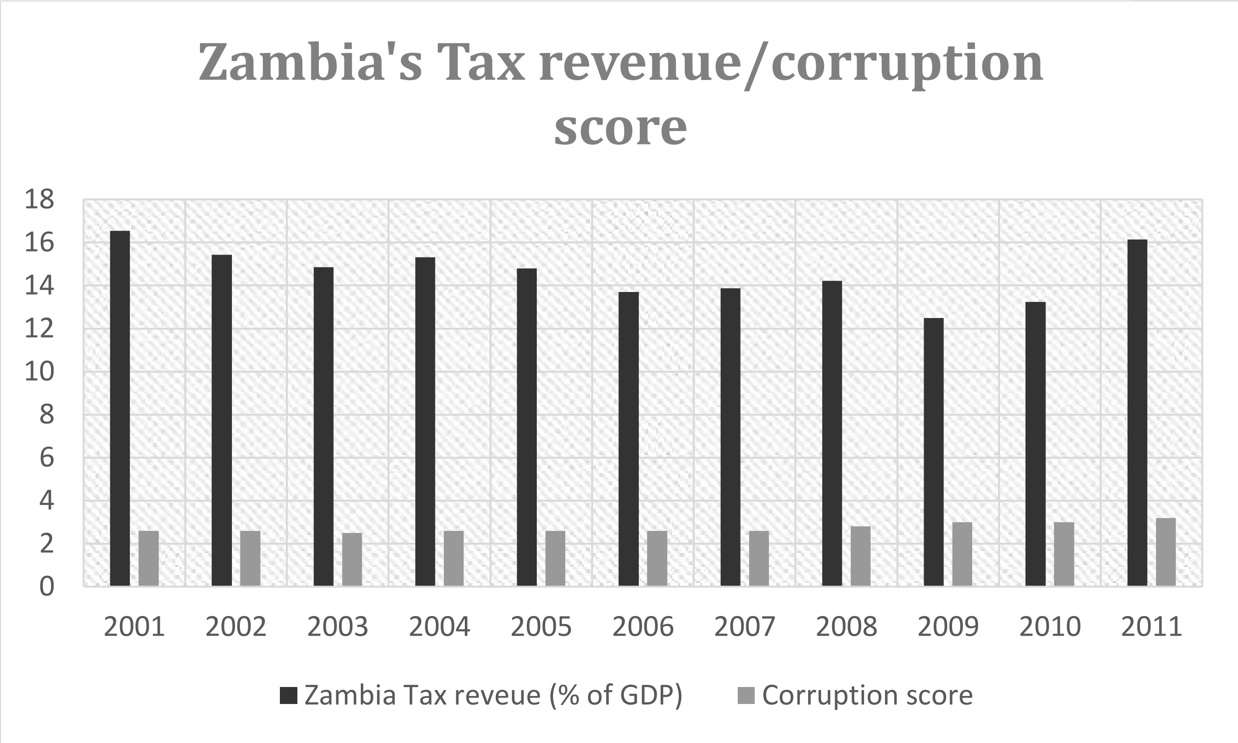
Source: World Bank Data

Appendix 10



Source: World Bank/ Transparency International Data

Appendix 11



Source: World Bank/ Transparency International Data